August 2002

Insurance Security Services

The Eyes and Ears of the Insurance Market

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COMPLAINTS AGAINST McCALL

. You will remember our intermittent coverage of the strange happenings an **Ian McCall**, Lloyds broker. It's original rescue from insolvency was with the aid of **Keith Beekmeyer**, then lately of **James Hunt Dix** (now bust) and previously representing **Avia** Insurance in Romania, during the period that **David Boorman** was fleecing them. Prior to that he was with **Dai Ichi Kyoto Re**, which went bust as a result of massive frauds, so well planned that Belgium has never managed to charge anybody with anything. Several people have spent time in jail, under Belgiums arbitrary laws, including **Mike Reeve**, and **Paul Yorke-Wade**, for no other reason than that Inspector Otten suspected them of something. In the end he couldn't prove anything.

But back to McCalls. Part of it's financial restructuring was with the aid of new capital, based on shares in Bio Farm Inc, a US company. We were

AON HAS PROBLEMS

Standard & Poor's has revised its outlook on **Aon Corp**. to negative from stable following the company's second quarter 2002 earnings announcement.

"This rating action reflects the margin deterioration in Aon's insurance brokerage and consulting practices, which reported lower-than-expected earnings,

INSURANCE CYCLES? OR INSANITY?

Insurance cycles are supposed to wave around the break-even point, spending some time in profit, and some time in loss. The overall average is therefore of a small underwriting profit, with the major gains coming from investment. Well that isn't what we've been doing. For far too long

ABOUT OUR PUBLICATIONS

Insurance Security Services Newsletter: A monthly publication that provides the most detailed coverage anywhere of the fringe market - the companies and the people who short change their trading partners. We also provide an overview of the world insurance market, balance sheet analysis, and provide information specially tailored to the security committee on law, pollution and the developments at Lloyds

Insurance Insolvency Newsletter: A monthly publication which covers developments in insurers and intermediaries which are in either solvent or insolvent run-off or have simply ceased underwriting. We cover litigation, assets, prosecutions, likely payouts and developments in the law

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TALES FROM THE FRINGE

COMPLAINTS AGAINST McCALL

Continued from page 1

The Company is the defendant in an action commenced in the United States District Court (Philadelphia) in March, 2002, by Hermes Kreditversicherungs AG (Plaintiff), a Hamburg,

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Germany, insurance company. Such action seeks the recovery of 1,651,490 British pounds. The complaint alleges that Plaintiff, on May 4, 1999, issued its indemnity bond on behalf of Britten-Norman Limited (BN) to the purchaser of an airplane to be manufactured by BN. The complaint further alleges that the Company guaranteed Plaintiff against any loss sustained by Plaintiff in issuing such indemnity bond. The Company is vigorously defending such lawsuit. The Company has asserted as affirmative defenses that

a) *BN was never a subsidiary of the Company and that no consideration justified the issuance of the alleged guaranty by the Company;*
b) *the signatures on the alleged guaranty of a "director" and of the Secretary of the Company are not sufficient to bind the Company in the absence of supporting resolutions of the Board of Directors of the Company;*
c) *The signature of Keith D. Beekmeyer (KDB) on the alleged guaranty as "Chairman" is invalid because, under the By-Laws of the Company, the Chairman is not an officer of the Company capable of executing documents on behalf of the Company;*
d) *the signature of Anil Mahan (AM) on the alleged guaranty as Secretary of the Company is invalid because AM never occupied the position of Secretary of the Company;*
e) *the validity of the alleged guaranty by the Company was never the subject of minimal underwriting due diligence on the part of Plaintiff;*
f) *the Rescission Agreement, executed October 31, 1999, between the Company and Litchfield Continental Ltd. (LCL) specifically indemnified the Company against any and all matters affecting the Company and instituted by LCL during the period October 5, 1998, through and including October 31, 1999; and,*
g) *BN, at all relevant times owned by LCL, was placed into insolvency proceedings by LCL on April 4, 2000.*

Pursuant to Instruction #4 to Item 103 of Regulation S-B, Messrs. Beekmeyer and Mahan, formerly directors and an officer (Mahan) of the Company, and the principal shareholders and officers and directors of LCL (the holder during the period October 5, 1998, until October 31, 1999, of a convertible debenture of the Company then convertible into more than five (5%) percent of the Company's Common Stock), is each a party adverse to the Company and has a material interest adverse to the Company.

It is the Company's position that Messrs. Beekmeyer and Mahan have used assets of

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the Company to further their personal interests and those of LCL, have misappropriated Company assets, and have caused the Company to have to defend against claims not assumed by the Company. These activities are the subject of a criminal complaint being made by the Company to the Serious Fraud Office in London. In addition, the Company is investigating the role played by the Company's former auditors in furthering the schemes orchestrated by Messrs. Beekmeyer and Mahan.

Having received the Company's answer to its complaint, Plaintiff has now found it necessary to move to take the depositions of Messrs. Beekmeyer, Mahan and Paul Bartlett (a director of BN) in London. Item 5. Other Information (The responses to this Item, not previously reported in a report on Form 8-K, are intended to comply in all respects with the reporting requirements of Form 8-K. However, a report on Form 8-K will be filed within sixty days of the date of this Form 10-QSB to satisfy Item 7 of Form 8-K as to the filing of required financial statements.)

On June 12, 2002, a wholly-owned subsidiary of the Company (NEWCO) entered into a contract to acquire twenty (20%) percent of the issued and outstanding shares of Common Stock of Fulmer Logistics Corp. (FLC). FLC simultaneously acquired 100% of the capital stock of Fleet Global Services, Inc. and Fulmer Brothers, Inc. FLC is engaged in the transportation logistics business. The principal shareholders of FLC are Zach and Mack Fulmer, neither of which brother had or has any relationship of any kind with the Company or with any affiliate of the Company.

The assets of FLC consist principally of accounts receivable generated from trucking activities. NEWCO's cost of acquisition of such twenty (20%) percent of FLC is NEWCO's covenant to discharge any and all expenses incident to the registration of such shares to permit the distribution thereof to the shareholders of the Company. Closing of the transaction is to occur simultaneously with the (a) receipt of the audited financial statements of FLC (and their acceptability to management of the Company), (b) private placement by FLC of $8 (net) million of equity, and (c) effectiveness of the registration statement relating to the distribution of the twenty (20%) percent interest in FLC

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So it sounds as if there has been a falling out between BioFarm and Beekmeyer. Not totally unexpected perhaps. We shall be researching the balance sheet much more closely. The SFO say they cannot trace a complaint being lodged.

SNIPPETS FROM AFRICA

No, we're not going to wobble on about the 419 scams that started in Nigeria and have now spread beyond the continent. That's later. There is a lot of other, purely insurance, fraud going on.

The National Insurance Corporation Marketing Manager in Uganda is accused of embezzling sh 48.2m (about $27,000) meant for the insurance of the presidential jet. He is on the run, and State Prosecutor Jackline Kyosimiire last month told Buganda Road Court Magistrate Martin Mungao that Byarugaba Kaawa had done a runner and abandoned his office at NIC headquarters in Kampala.

So the magistrate summoned the suspect for the second time to answer the charges before the same court on August 29. We'll tell you if he turns up.

A warrant of arrest will be issued against Byarugaba if he doesn't. The money that he allegedly embezzled was part of the sh 609.9m premium paid by State House to NIC on February 18, 2002 as insurance for the new jet

However, the chief executive, Samuel Sebuwufu is already on remand in Luzira Prisons in connection with the same theft. Other senior NIC officials have been quizzed over the same issue, including Charles Omagor and chief internal auditor David Mutebi. It's not confined to Enron, you see. Investigations have been going on for some time. The CID is involved, and the route by which the money exited involved a 'ghost' insurance agent who allegedly handled insurance of the presidential jet. The agent paid was Bainomugisha, said to be Byarugaba's wife, who was entered as code number LA/761

Under standing procedure, a direct government-to-government deal does not need commission agents. It is reported locally that a debit note for the deal issued on December 27, 2001 indicates the insurance was direct business from government-to-government.

Somewhere along the line, that got changed.

Mukwano Industries have sued a Kampala insurance company, **AON Uganda Limited**, for alleged fraud and failure to account for US$256,355,78 insurance claims.

AON was appointed by Mukwano Industries as a broker to effect insurance for it with diverse insurers around the world.

The case has been filed in the Commercial Court, pending

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hearing before Justice James Ogoola, according to court sources.
Mukwano, represented by Magezi, Ibale and Company Advocates, claim AON received claims for losses on bulk oil imports, but neither forwarded nor accounted for them. AON, has however, denied the allegations. In its defence filed in the Commercial Court, AON stated that Mukwano's claims were lodged to it as an agent for forwarding to the insurers.

Next door, in Kenya, A Machakos-based lawyer has been arrested for swindling an insurance company of Sh143,000 in a false accident claim.
Sources told the Nation that the lawyer who was arrested by a team of detectives was, however, released on her own bond.
A letter by the United Insurance Company to the police described the fraud as "of the most glaring nature". "This part of the wider but staggering fraud committed by a section of the Advocates in Machakos through which we have lost millions of Shillings" said UIC legal officer Mr Paul Gichuhi.
The letter to the Machakos CID boss was copied to the CID director, Association of Kenya Insurers, the Chief Justice, the commission of insurance and the Attorney General. It detailed how the lawyer lodged the claim on behalf a driver involved in an accident without his knowledge.
The car owned by Charles Nzini was being driven by Mr Mutiso Katunga when it was involved in the accident on August 31, 1998.
The letter says that in his statement, Mr Katunga said he was not injured and never instructed the lawyer to lodge any claim on his behalf.
"He never went to see any doctor, never obtained any police abstract, never went to any court and was never aware of any claim made on his behalf.
The complainant never received the Sh143,675.90 paid to the lawyer by UIC on July 7, 2000.
Amazing what lawyers can do. You don’t need a client.
Still in Kenya, a syndicate operating from Nairobi's Wilson Airport has conned light aircraft operators out of millions of shillings through fake third party aviation insurance certificates.
Apart from aircraft operators losing money, passengers using the aircraft risk not being compensated in the event of an accident or loss of cargo.
The syndicate, however, is a boon to rogue aircraft operators who are opposed to a legislation enacted in 1999 requiring aircraft owners to place at least a sum of Ksh60 million ($7.5 million) of their third party insurance covers with local underwriters.
Aircraft donated to NGOs like the African Medical Research Foundation (Amref) are exempted from the rule on application to the Commissioner of Insurance. The insurance industry however is lobbying to

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have comprehensive aviation insurance underwritten locally.

Legislation is seen as one way of increasing business in aviation insurance, which accounted for a paltry 0.3 per cent of the Ksh16 billion ($205 million) general insurance premium in 1999, the latest figures available. The gross direct premium for aviation in 1999 was Ksh48 million ($615,384).

Legislation requiring that third party insurance be covered locally helped raise the annual earned premium from Ksh1.7 million ($217,794) in 1998 to Ksh3.2 million ($41,025) in 1999.

The business had an incurred claims ratio of 54 per cent compared with the highest, 99 per cent in workmen's compensation, and the lowest, four per cent in marine insurance.

Conmen fraudulently acquire the certificates and then sell them to aircraft operators for as little as Ksh20,000 ($250) per year while the average annual premium is about Ksh80,000 ($1,000). The fraudsters buy a booklet containing 25 certificates from the Association of Kenya Insurers (AKI) for Ksh1,000 ($13) using a bankers cheque.

They usually carry forged letters ostensibly written to AKI by any of the four insurance companies that actively underwrite aviation - Apollo, Pan Africa, Phoenix and the Insurance Company of East Africa (ICEA) - as proof of authority to purchase the certificates.

The certificates are then sold to unsuspecting aircraft operators by individuals pretending to represent the insurer or a broker for a song. Some of the certificates are duplicated, enabling fraudsters to cover different aircraft with one certificate thus substantially increasing the loot.

In other cases insurance companies may genuinely buy leaflets for their use only to discover that some leaflets are missing. The missing leaflets eventually crop up at the Directorate of Civil Aviation (DCA) where a domestic third party cover is necessary before a certificate of airworthiness is issued. The end result is that the aircraft is shown to have a cover while, in fact, it is not insured.

"It is a crafty trade that can be perpetuated at any level of handling the certificates," AKI chief executive officer David Ngugi told The EastAfrican. The scam was brought to light in November last year when the directorate discovered that some certificates apparently issued by Pan Africa Insurance Company had been forged.

One of the certificates, No.000826, was sold to Mr John Henry Atkinson, who owns a private aircraft registration No.5Y-BZA. Investigations so far indicate that the leaf was plucked off booklet number 000826 - 000850 either before or after it was sold to Pan Africa Insurance.

The certificate was sold to Mr Atkinson by Ms Fixed Wing

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Services after payment of Ksh20,000 through a cheque drawn on ABN-AMRO Bank, Mombasa. Joan L. Edwards of Fixed Wing's accounts department acknowledged receipt of the cheque.
A check at the Commissioner of Insurance Office revealed that Fixed Wing Services was not registered as an insurance broker. Brokers are registered with the commissioner's office for Ksh1,000 ($13). Fixed Wing argued last week that the company then belonged to a man who has since been charged at a Kibera courts with fraud.
Police are investigating another case in which a man walked into the AKI offices last December ostensibly to buy an insurance certificate booklet on behalf of Phoenix of East Africa Assurance Company.
He paid for the certificates using a banker's cheque drawn on Akiba Bank.
It was later discovered that the letter of authorisation by Mr H. Kisia of Phoenix had been forged. Although Mr Kisia is a claims superintendent, he is shown on the letter as the assistant underwriting manager.
Little more than a routine check on the letter would have alerted AKI to a glaring mistake in which the association's offices are shown to be at Silopark House while the correct location is Transnational Plaza. But who checks?
Certificates from the booklet were used to cover several aircraft operated by different companies.
Certificate No.000929 was used to cover two commercial aircraft - 5Y BNH, operated by King Air Services and 5Y KSK, operated by the Mombasa Flying Club.
Certificate No. 0000098 was also used to cover aircraft No 5Y DON, run by Blue Safaris and 5Y TJ, operated by Trident Enterprises.
Other aircraft issued with the fake certificates included 5Y TWG, 5Y TWJ, 5Y TWH, and 5Y TWI, all operated by Transworld Safaris.
Aircraft run by C. J. Aviation, Larkin Holdings and Bonhams. Independent safaris are also believed to have fallen prey to the racket.

In South Africa, prosecutors are investigating a fraud case against managers at insurance broker **Alexander Forbes** after an employee blew the whistle on an alleged conspiracy to defraud a client of R1,3m.

It is understood that the Financial Services Board (FSB) is also investigating the matter, as the alleged fraud is linked to a policy underwritten by **Mutual & Federal**.

The allegation is that the companies conspired secretly to reduce and backdate disability cover, in effect defrauding a client of almost R200000 of weekly disability cover.

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Mutual & Federal has claimed in court papers that the R200,000 cover "must be a mistake". The whistleblower, a junior employee at Alexander Forbes's Witbank office, was subsequently dismissed.

The client, Jane Hornsey, claims she was paying premiums which entitled her to temporary total disability of R200,000 a week. On August 9 last year she sustained work-related injuries and was laid off work for close to two months.

The whistleblower, Anita Henderson, says in her affidavit that a manager at Mutual & Federal instructed her to:- amend the cover from R200000 to R5000 weekly disability cover; backdate the change to August 4 last year; and state in a letter that Hornsey had discussed the reduction with her. She goes on to state that Hornsey neither discussed nor requested "to reduce the sum insured to this amount" (R5000).

Hornsey's employer, Vibratory Stress Relieving, has laid a civil claim against Mutual & Federal.

In papers submitted to the civil court, Mutual & Federal claims it is not bound to provide R200,000 a week cover.

"Cover in the amount of R200,000 per week for temporary total disability is grossly excessive in the circumstances," Mutual & Federal claimed. It "did not know that the document (an annexure (sic) to a filing notice) reflected cover of R200,000 per week". Mutual & Federal, it said, "could not have intended to provide such cover and the entry must be a mistake". Alexander Forbes CEO Graeme Kerrigan said last night he was not familiar with the details of the case and could not comment any further.

Sources close to the legal proceedings claim that there has been a delay in the FSB's probe because the parties being investigated have withheld documents. Hardly surprising. Sounds like another case of the underwriter signing without reading, and then everybody trying to wriggle out once it's hit the fan.

Carolina Re, in Bermuda was the captive reinsurer owned by the controllers of Fortress Re, and was used by the to rip off yet more money from the principals of that pool. It proved quite unable to meet its commitments to those principals after the losses of 11.9, and has folded. See our insolvency news for more details. However, this must not be confused with **Central Carolina Bank and Trust,** in North Carolina. This one, controlled by one Ralph G Hines, is alleged in court indictments, to have been used by him to launder $1.2m of money he had nicked from investors in his fraudulent schemes. He's in jail since May,

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principally because, although he's not faced trial on these charges yet, he's got many previous on his yellow sheet, and so is considered a high risk of going walkabout.

Mind you, all walks of life use banks to hide their illgotten gains. Many Latin American rulers have already learnt in the past that, when one has something to hide, one cannot afford to lose power. Now **Carlos Menem,** of Argentina; Carlos Salinas de Gortari, of Mexico; and **Arnoldo Alemán,** of Nicaragua, are learning the lesson first-hand.

As we reported a couple of months ago, a retiree armed with a grenade demanded his savings at a bank in Argentina. . He got them and was later arrested. But he was the only Argentinean who could cash his entire savings. Argentineans can cash 78 percent of their deposits, up to $5,000, but in pesos, which were pegged to the dollar at parity prices until 2002 and are now worth $0.71 each.

While they see their shrinking savings disappear and their country's economy collapse (with $171.19 billion in public debt or 58.7 percent of the GDP estimated in 2002), Argentineans have also learnt this month that former president Carlos Menem is the holder of at least two bank accounts in Switzerland, which have been frozen by Swiss authorities in an alleged money laundering case. According to Swiss magazine L'Hebdo, Menem, his ex-wife, Zulema Yoma, and his daughter, Zulemita, own a joint account in a branch of the UBS in Geneva. Together with another frozen bank account linked to Menem, they both contain "less than $10 million", judge Claude Wenger, who handled initially the case, told the Swiss publication. Menem had always said that he did not hold any bank accounts in Switzerland.

Menem (1989-1999), the flamboyant former president who revived Argentina's economy a decade ago, was put under house arrest last June as part of the investigation into illegal arms sales. He spent 166 days in house arrest after being accused of heading an "illicit organisation" that funnelled arms to Croatia and Ecuador in 1991 and 1995, despite international arms embargoes on both nations.

Argentineans speculate that the money found in Switzerland could be a fraction of the proceeds of the sale to Croatia and Ecuador of 6,500 tones of weapons, whose value is estimated in $100 million (of which the government got only $40 million). Menem hired Pascal Maurer, a lawyer based in Geneva in order to face the accusations.

Much the same allegations are being pursued in Nicaragua, Bolivia and Ecuador. If their local insurers don't turn out to be involved sooner or later, we'll be surprised.

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BANKS IN TROUBLE

Deutsche Bank has a surprisingly high profile in the insurance market, witness its central position in the **Gerling** debacle. That company is for sale, with no buyers, and forced to close the US subsidiary it cannot afford; due to poor underwriting and because DB, after coming in as a backer, pulled out, came back in, and is now moving out again.

So what do we know of this bank that can influence major insurers so? They have their own problems. Their chief executive faces a criminal indictment for his role in the Continent's largest takeover.

German prosecutors are expected to bring charges against **Josef Ackermann**, over his role in agreeing £50 million of severance payments to Mannesmann bosses just as the company was being taken over by Vodafone more than two years ago

The high-profile inquiry is likely to lead to charges being levelled against the former Mannesmann chief executive Klaus Esser, but not the Vodafone chief Sir Christopher Gent, who at one point is said to have effectively pressured Herr Esser into accepting the British company's hostile bid.

The pressure on Herr Ackermann intensified yesterday when Klaus Zwickel, the union boss who was on Mannesmann's supervisory board with the Deutsche Bank chief, admitted that he expected to be charged by the Dusseldorf public prosecutor shortly.

In a statement Herr Zwickels lawyer said The intention to file charges exists and appears to be irreversible. The statement also denied any wrongdoing on the part of Herr Zwickel, who leads the industrial trade union IG Metall.

Neither Deutsche Bank nor Herr Ackermann will comment. A spokesman for the Swiss-born chief executive said that the "accusations were unfounded" and added that "the appropriate legal advice was taken at the time". That’s what all the Enron, Worldcom and the rest are saying.

Under investigation by the Dusseldorf public prosecutor is whether the payments made in the days after the stunning success of Vodafone s £101 billion bid were excessive. If it is thought there is a case to answer the prosecutor can lay a breach of trust charge against the individuals involved Such a charge which effectively accuses directors and executives of acting against the interests of shareholders, is a criminal offence and carries with it a maximum jail term of five years.

Martin Sorg, a lawyer with the German firm Binz & Partner and the man who made the complaint that prompted the investigation said that Herr Ackermann was in a precarious position. 'Now he is chief executive of Deutsche Bank, if he is accused, he can no longer

stay there. This is Germany s largest bank.

Speculation that charges are imminent was kick-started yesterday by apparently informed German reports that a prosecution of Herr Ackermann and Herr Zwickel was "considered certain". However, the Dusseldorf prosecutor did not confirm or deny the story Instead a spokesman said no charges were imminent and all those under threat of being charged had been informed.

The investigation dates back to February 2000 and the closing days of Vodafone s bid for its mobile phone rival Mannesmann. On February 4 the day after Mannesmann had accepted a revised bid from Vodafone the supervisory board made a DM60 million severance award to Herr Esser roughly double what he was due under the terms of his contract. Other payments were awarded in the weeks before Vodafone took control.

Those present at the fateful meeting say that the payment was proposed by Canning Fok managing director of Mannesmann's largest shareholder Hutchison Whampoa. Mr Fok was not mentioned as likely to be indicted.

Vodafone has denied wrongdoing. A spokesman said "We have heard nothing about the prosecutor's intentions". Well, they’re hardly likely to say “It’s a fair cop”, now are they? Deutsche Bank is obviously disillusioned with insurance as an investment. It has just sold its final 5% holding of Munich Re for Eu 1.6bn.

In fact European banking is having a bit of a rough time at the moment. **Credit Lyonnais**, already a defendant in the Executive Life writs issued by California’s Insurance Department (see our Insolvency Newsletter), is now facing further writs. The future leadership of the European Central Bank (ECB) was cast into doubt recently when a French judge ordered Jean-Claude Trichet its anointed next President, to stand trial over the Credit Lyonnais banking scandal of the 1990s.

M Trichet. 59, the Governor of the Bank of France, is to be charged with issuing false information and approving incorrect accounts for the near-bankrupt state-run bank in 1993 in his capacity as Treasury director at the time.

Among others to be tried are Jean-Yves Haberer, a former Credit Lyonnais boss, MD Jacques de Larosiere, 72, a former Governor of the Bank of France and a former Director-General of the International Monetary Fund.

Philippe Courroye, an investigating judge with a reputation for pursuing high-level misconduct, issued his surprise order in the face of contrary advice last May by the state prosecutor who recommended that all charges against M Trichet should be

dropped.
Since a trial is unlikely to take place until next spring, with a verdict in the summer, the move ends European Union hopes of a smooth hand over next year of the management of the euro after five years under Wim Ouisenberg.
The Governor's only hope of escaping trial would be an appeal by the prosecutors against the judge's decision Francois Foulon, the deputy Pans prosecutor, said last night "A final decision has not been taken, but an appeal is unlikely".
Nothing would formally prevent M Tnchet from taking the Frankfurt job with the ECB even if he were found guilty of endorsing misleading accounts. That kind of thing is expected among politicians, or those aspiring to be. If you were honest, why would you have got into that dirty game. But it is assumed that the credibility of the euro would not withstand the appointment of an ECB President with a fraud conviction. M Trichet s only hope would be to clear his name in time to take office. Which don’t seem likely.
M Trichet has refused to comment since he announced that he was under investigation in 2000
He said then that he was surprised because he had done all that he could at the time to alert the authorities to the troubles of Credit Lyonnais. A parliamentary inquiry also cleared M Trichet of wrongdoing three years ago. Well, it would. That’s politicians again.
Ultimately, Credit Lyonnais cost the taxpayer £11 billion in lost debts before privatisation. Sounds small fry with Enron and World Com in the wind, but it still rankles. Trichet will have to convince a judge. That’s a different game than obtaining forgiveness from politicians. In the UK the government has been accused of emulating Enron. The Chancellor of the Exchequer, Gordon Brown, is facing a parliamentary investigation over allegations that he has tried to hide £100 billion of public debt by using "Enron-style" accounting practices.
John McFall, the Labour chairman of the Commons Treasury select committee, intends to examine whether the chancellor should be allowed to place potential liabilities "off balance sheet". The debts are contained in government pledges to underwrite Network Rail, the successor to Railtrack, and hundreds of deals with the private sector to construct hospital s and other public sector buildings.
Over the next 25 years, the government has committed itself to some £98 billion of private finance initiative (PFI) projects. It has also just given a £9 billion guarantee to Network Rail, which it wants to run Railtrack as a not-for-profit company, and the Department for Transport has agreed to guarantee £4.5 billion of debt to secure the London Underground public-

private partnership.

If the money was acknowledged as part of public borrowing, it could lead to a rise in interest rates and force Brown to consider either raising taxes or cutting spending.

A senior source close to the Accounting Standards Board (ASB), which sets guidelines for both the public and private sector, said: "This is pure Enron hiding your debt of your main company balance sheet." The source claimed that in 1998 the Treasury had put pressure on the ASB to approve "off balance sheet" treatment of PFI and public-private partnership building schemes.

According to government accounting rules, there is nothing wrong in the approach. British companies, however, would not be able to treat similar deals the same way on their accounts. Don’t do what I do, do what I say.

Mike Warburton, a senior partner at Grant Thornton, the accountants, said: "The government is effectively fiddling the figures by using a mechanism to disguise its liabilities."

Yet auditors will be required to enforce their client adherence to the new strictures intended by politicians, who wouldn’t swear to their own figures. It wouldn’t make a lot of difference if they did. Who’d believe them?

WHERE ARE THEY NOW?

A real blast from the past hit us watching a Discovery TV series on wrecks in the North Sea, when the team leader for one of the search teams was **Andy Flowers**, who we last knew associated with the run off of **Grand Union (UK**). And, yes, it was him, beard and all.

The 419 scam, started by the Nigerians, has spread to become almost a universal affliction. Now they involve not just greed but the additional incentive of helping a widow?

Dear Friend,

Please don’t be annoyed if I may be disturbing you for any reason, I’m only doing what a mother has to for her kids. May God Bless yours.

I am Madam Brenda Wilson wife/widow to late Gen Patrick Wilson an Army Official, I'm also a mother of 3 lovely boys, Patrick (12yrs), Kevin (8yrs), Dotun which is a traditional name, he is 5 yrs, and I'm also the last wife out of 3, married to my late husband.

Before my husband died he willed all his landed property to his elder wives and children, all the elder wives and their children enjoy what is left of our husband wealth, leaving me the last wife with nothing, well we did not really along well when he was alive but he loved the kids I had for him.

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Things are not going too well, after 1yr of his death, I mean raising the kids, sending them to school, clothing them even shelter and feeding, my parents are already dead, just me in this miserable world and I have just 2 months to evacuate the house I'm staying now, all the other wives don't allow me in their houses including the house I used to live with my husband before he died or even render any kind of help, but I really loved my husband.

Why I have contacted you is because my late husband left some money for his children (7 million US Dollars) deposited in a the Royal International Bank (www.royalinternationalbankonline.com), which was revealed to me by the family lawyer just 6 months ago, which he claimed to be the time stated on the will by my late husband to avoid clashes between myself and the other wives.

But this money can only be claimed when each child is up to 21yrs in age, not even myself can extract from this fund according to the will. The other option is if can provide someone (FORIEGNER) who will stand as a caretaker for my kids and my self, and help invest this money with profit in future.

So only a foriegner can receive and manage this money in taking care of my children finacial needs from time to time, by sending money to the and paying their bills. But I cant wait for 9yrs for my first son to be able to claim his rights, I don't have a good job at present and I cant even pay their school fees, or even afford them 3 square meals and I don't want them to end up like me.

My lawyer says the earlier I try to get someone to claim this funds on my behalf the better for myself and my children, and try as much as possilbe to be sure of whom I am doing this transaction with because once the money wired to a foriegn account he has no control over it, so please I will also like to know the kind of person I am dealing with, I need your totall honesty. My late husbands Lawyer is ready to help you in order to receive this money stress free.

Thats why I have come to this extent to find someone who I can trust and from the little I know from God's guidiance I think I will like it if you could just come to our rescue and help us claim this money so I can raise my kids I dont mind having to give you 10% of the money for your good deeds, just for my children to live.

I also have a copy of My Late Husbands Death Certificate for your perusal.

Please send your full name, Phone/Fax number and other important information about yourself so I can give to my

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lawyer to enlighten you on what you have to do right away. Please I'm counting on you to help me just for the sake of my kids

God Bless you,
Brenda

We even got one from a relative of Bin Laden.

VERY URGENT BUSINESS TRANSACTION

GREETINGS

DEAR SIR,

As-sallam Alaikum Wara-hamatullah, Wabarakatuhoo. May Allah's Peace, Mercy and Blessings be with you. I seek refuge in Allah, against the accursed devil. In the Name of Allah, the Gracious, the Merciful.

In order to transfer out ($usd36,561,000), from our bank. I have the courage to ask you to look for a reliable and honest person who will be capable for this important business believing that you will never let me down either now or in future. I am Dr. Abdulrasaq Mohamed, the eastern district bank manager of standard trust bank plc. (s.t.b). There is an account opened in this bank in 1980 and since 1990 nobody has operated on this account again. After going through some old files in the records I discovered that if I do not remitt this money out urgently it will be forfeited for nothing. The owner of this account is Mr. Smith b. Andreas, a foreigner, and the manager of petro - technical support services, a chemical engineer by profession and he died since 1990. No other person knows about this account or any thing concerning it, the account has no other beneficiary and my investigation proved to me as well that this company does not know anything about this account and the amount involved is ($usd36,561,000). I want to transfer this money into a safe foreigners account abroad but I don't know any foreigner, I am only contacting you as a foreigner because this money can not be approved to a local bank here, but can only be approved to any foreign account because the money is in us dollars and the former owner of the account is Mr. Smith b. Andreas is a foreigner too. I know that this massage will come to you as a surprise as we don't know our selves before, but be sure that it is real and a genuine business. I only got your contact address from indiscreet search, with believe in god that you will never let me down in this business you are the only person that I have contacted in this business, so please reply urgently by providing the following: a. Your private telephone and fax number for fast and easy communication. B. Your bank details which includes, your account name and number where you want the

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money to be transfered, your bank name and full address, telephone and fax numbers of your bank. So that I will inform you the next step to take urgently. I want us to see face to face or sign a binding agreement to bind us together so that you can recieve this money into a foriegn account or any account of your choice where the fund will be remmitted. And I will fly to your country for withdrawal and sharing and other investments. I am contacting you because of the need to involve a foreigner with foreign account and foreign beneficiary. I need your co-operation to make this work fine. Because the management is ready to approve this payment to any foreigner who has correct information of this account, which I will give to you later immediately, if you are able and with capability to handle such amount in strict confidence and trust according to my instructions and advice for our mutual benefit because this opportunity will never come again in my life. I need a truthful person in this business because I don't want to make mistake I need your strong assurance and trust. With my position now in the office I can transfer this money to any foreigners reliable account which you can provide with assurance that this money will be intact pending my physical arrival in your country for sharing. I will destroy all documents of transaction immediately we recieve this money leaving no trace to any place. You can also come to discuss with me face to face after which I will make this remittance in your presence and two of us will fly to your country at least two days ahead of the money going into your account. I will apply for annual leave to get visa immediately I hear from you that you are ready to act and receive this fund in your account. I will use my position and influence to effect legal approvals and onward transfer of this money to your account with appropriate clearance forms of the ministries and foreign exchange departments. At the conclusion of this business, you will be given 30% of the total amount, 65% will be for me, while 5%will be charity. I look forward to your earliest reply by email.

YOURS TRULY,

DR.ABDUL RASAQ MOHAMED.

All these people want to give you money. And there must be some suckers who get hooked, or they would have given up long ago. Enough of this hilarity. Back to the serious business of a market rapidly running out of assets.

INTERNATIONAL ROUNDUP

AON HAS PROBLEMS

Continued from page 1

and continued execution problems associated with the implementation of its business-

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transformation plan," Standard & Poor's credit analyst Matthew Coyle, said. *Standard & Poor's believes the time and effort that management has spent implementing its business-transformation plan has cost the organization more than it had set out to achieve, at least in the short term, with many of Aon's competitors capitalizing on the operational disruption it has caused inside and outside the organization.*

The rating action was also based on the current SEC review and the capitalization of the insurance operations of Aon subsidiary Combined Specialty Insurance Co. These issues could have an adverse effect on Aon's prospective financial capacity. Aon's ability to materially improve the profitability of its insurance brokerage and consulting practices in the second half of 2002, reduce financial leverage, and complete its SEC review without any material developments will determine the impact on the rating.

The single-'A' financial strength ratings on **Combined Insurance Co**. of America and Combined Life Insurance Co. of N.Y. will remain on CreditWatch with negative implications. Management has said it would not raise equity capital as previously announced but would explore strategic alternatives relating to the sale or spin off of all or part of its underwriting operations. As stated in earlier press releases, Standard & Poor's believes Aon's insurance operations are under capitalized for the ratings. Unless management addresses this issue adequately and in a timely manner, the ratings could be lowered significantly.

Standard & Poor's will be meeting with management over the next few weeks to discuss in detail how these alternatives could potentially affect the ratings on both Aon and the interactively rated entities within Combined Specialty.

They’re also getting sued. The law firm of Milberg Weiss Bershad Hynes & Lerach LLP reported that a class action lawsuit was filed on Aug. 8 on behalf of purchasers of the securities of Aon Corporation between May 4, 1999 and Aug. 6, 2002, inclusive.

The action is pending in the United States District Court, Northern District of Illinois, Eastern Division, against defendants Aon, Patrick G. Ryan and Harvey N. Medvin.

The Complaint alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by issuing a series of material misrepresentations to the market between May 4, 1999 and Aug. 6, 2002, thereby artificially inflating the price of Aon securities.

Throughout the Class Period, as alleged in the complaint, defendants issued numerous statements and filed quarterly and annual reports with the SEC

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which described the company's earnings and financial performance.

The complaint alleges that these statements were materially false and misleading because they failed to disclose and/or misrepresented the following adverse facts, among others:

(i) that the company had materially overstated its net income by $27 million in 1999, by $24 million in 2000 and by $5 million in the first quarter of 2002;

(ii) that the company lacked adequate internal controls and was therefore unable to ascertain the true financial condition of the Company; and (iii) that as a result, the value of the company's net income and financial results were materially overstated at all relevant times.

On Aug. 7, 2002, before the market opened for trading, Aon informed the market among other things, that:

(a) it had failed to meet analysts' expectations on its earnings for the second quarter by a wide margin;

(b) because of the slumping financial markets, it had cancelled a spin-off of its insurance underwriting businesses to shareholders; and (c) the SEC had began an investigation of its accounting and was questioning several items in the company's accounts, including the reporting of investment write-downs, the timing of some costs and a reinsurance recoverable item and the decision not to consolidate certain special purpose vehicles.

Aon also stated that, if the SEC says it is necessary, it will have to restate its earnings for the past three years, and reduce its net income by $27 million in 1999, by $24 million in 2000 and by $5 million in the first quarter of 2002.

Following this report, shares of Aon fell $6.43 per share to close at $14.77 per share, a one-day decline of 30.3 percent, on volume of more than 20 million shares traded, or more than 20 times the average daily volume.

It isn’t just investors that don’t believe AON’s figures. Nor do the SEC. On August 7 Aon announced that it had failed to meet its earnings expectations for the second quarter by a significant amount. Aon also said that the Securities and Exchange Commission (SEC) was examining its 1999, 2000, and first-quarter 2002 earnings statements and may require the broker to restate them. Later the same day, Moody's Investors Service lowered Aon's debt in part because a corporate reorganization (including a number of acquisitions and the establishment of four customer service centers across the country) had disrupted the flow of business and increased expenses. Regarding the SEC investigation, Patrick G. Ryan, chief executive of Aon, said that the firm could be required to

lower 1999 reported earnings by $27 million, 2000 earnings by $24 million, and first-quarter 2002 earnings by $5 million. Jay Cohen, an analyst with Merrill Lynch, said that in this case the SEC inquiry does not appear as worrisome as some other recent investigations because it seems to be based on issues related to disclosure rather than any suggestion of fraud.

Aon Corp. shares dropped 30 percent on the news.

The Chicago-based company also announced it was delaying the pending spin-off of its insurance underwriting operations, Combined Specialty Group Inc., citing current market conditions.

For the second quarter, Aon broke even, compared with net income of $29 million, or 11 cents a share, a year earlier.

Revenue climbed 11 percent to $2.12 billion from $1.92 billion a year earlier. The latest results included a charge of $3 million, or a penny a share, for spin-off costs and a gain of $6 million, or a penny a share, related to its business transformation plan. Aon in the latest quarter also recorded a pre-tax adjustment of $56 million, or 13 cents a share, in its non-operating corporate and other segment revenue.

Based on its talks with the SEC, Aon said it has determined that certain non-cash, other-than-temporary losses should have been recorded in previous periods. The company believes the impact wouldn't be material and recorded it in the present period. Aon, however, said the SEC could challenge this treatment and may require it to amend prior-year results to reflect the adjustment. The reduction to pre-tax earnings would be $27 million, or six cents a share, in 1999; $24 million, or six cents a share, in 2000; and $5 million, or one cent a share, in the first quarter of 2002.

Aon said it expects 2002 earnings to exceed $1.80 a share, excluding non recurring items.

The whole drop in assets value affair is turning in on itself.

British companies face a massive £70 billion shortfall in their pension schemes, according to research released today, far higher than had previously been feared. The latest estimates can only increase concerns that the funding crisis will lead to a massive outflow of cash from the equity markets.

Research by Watson Wyatt, the actuarial consultant, found that the 20 per cent fall in stock markets since the beginning of the year has led to at least 90 per cent of UK companies facing a pension deficit under new accounting rules, known as FRS17.

John Ball, a partner in Watson Wyatt, said the massive funding shortfalls were fuelled by pension funds' continued high exposure to equities despite concerns raised by tumbling stock markets. At the beginning

of the year the average pension fund invested 64 per cent in equities, although market falls have led to an average 56 per cent holding.

Lane Dark & Peacock, the actuarial consultant, found last week that a high proportion of FTSE 100 companies' pension funds maintain an above-average equity weighting. Among the highest are GlaxoSmithKIine's pension, which is 11 per cent underfunded, and holds 87 per cent in equities, while Celltech, which faces an 18 per cent gap between assets and liabilities, is 96 per cent in equities.

Watson Wyatt estimated in March that about half of FTSE 100 companies faced shortfalls totalling £4 billion. But the sharp drop in equity markets over the past three months has prompted Watson Wyatt to revise its estimates of underfunded pensions to £35 billion in the FTSE 100 and £70 billion across the UK.

The revised position reveals a dramatic increase in the number of pension funds with liabilities in excess of their assets.

Experts believe that the extent of the funding crisis will force a shift in pension fund investment strategy, which has traditionally been dominated by equities. Mr Ball said: "A lot of pension funds are still working out what to do. They have to decide whether to stay in equities. But moving to bonds now would lock in these deficits. And that is what they are doing. In the case of the industry managed funds, they are being forced to, in order to meet solvency tests.

Their situation is much worse. For years, to win the accolades and get your fair share of business in the face of competition, you had to be able to produce a better return than the others. That meant taking high risk, high return decisions. Then came the Dot com crash. Then the Telecoms crash. Now, not unsurprisingly, the whole stock market is sick as the legendary parrot, and your investments and pensions are gone. Even if the stock market goes back up (and don’t hold your breath), it can’t replace the hundreds of billions that have evaporated in dotcom, telecoms and energy trading failures.

That money is gone. Forever.

As a result, many composite insurance companies, who have been dipping into their life and pensions funds to finance the suicidal rate cutting in the name of market share, are now going to find it hard to earn enough out of the post WTC rates to repair the damage the stock market has done to their major source of profit. The writing is on the wall. One month ago.

Sir Howard Davies, the chairman of the Financial Services Authority, warned that the fall in stock markets had alarm bells ringing about the financial strength of life insurers. The noise must now be deafening, shares have dived a further and spectacular 13-8 per

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cent since then, significantly, the FTSE100 crashed through 4,200. This was the critical level they had seen as the trigger which would force life insurers into a massive sell-off equities to boost the solvency of their battered life insurance funds. Remarkably, there appears o have been no massive panic selling. Or, at least, not yet

The market has dithered a bit since, with opinions divided as to whether it is the beginning of a recovery, or the markets preferred phrase a “dead cat bounce”

Davis has since been heard to offer his opinion that we were suffering in the wake of US scandals, and were ripe for an upturn. This doesn’t sound like an objective stock market analyst or and it is widely thought his views were influenced by inside knowledge of possible damage to the financial system if the bear market turns even more savage.

The point of weakness in the system is undoubtedly the life insurance sector. Life funds' surplus capital, built up in the bull markets of the 1990s, has been eaten away by the stock market falls. Free assets, have plummeted from £130bn at the start of 2000 to well under £30bn, according to Ned Cazalet, a published independent analyst. As a result, many companies are running scared.

In an unusual move designed to bolster investor confidence. Prudential is planning to reveal its free asset ratio, a key measure of financial strength usually announced annually, at its interim results on Tuesday.

The key issue is how and if the industry has ridden out the storm. Big insurers such as Aviva, Prudential, Standard Life and Legal & General insist they are not forced sellers of shares. But some experts argue that life insurers have been gradually reducing their equity exposure. Prudential has been a consistent seller since 1999, reducing its equity holding in its life fund to 54 per cent. Standard Life has recently announced plans to shift 5 per cent of its £30bn fund into bonds. If they had been able to do it slowly, the damage will not be so great. The figures don’t seem to show this though.

Life insurers are also thought to have hedged their equity exposure by buying derivatives to protect against further falls in shares. Though this is a prudent move, analysts argue it can be expensive in volatile markets. And that is what we have at the moment. There is also a robust argument about the contribution made by short selling to the market collapse.

Another factor has been the FSA's decision to amend its "resilience test". The amendment, announced a month plus ago, allows insurers to apply the test using the average level of the FTSE All-Share index over the past three months

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rather than on a daily basis. The move has effectively given insurers breathing space since it smoothes out the peaks and troughs. Trouble is, it won't repair the damage done by a long term fall, which is what we're now seeing.

Some analysts believe that a number of life insurers are sitting tight, refusing to sell equities in the hope that the market will recover. There is a huge element of denial in the industry right now," says Cazalet. Experts believe that even a slight further fall could drive smaller, weaker life insurers to close to new business or merge with bigger rivals. Last week Scottish Friendly, a fast growing insurer, admitted that it was looking at reducing its new business levels. **Axa**, the French insurer, has already scaled back its with-profits business. The market has seen huge falls in life insurers' assets.

So how far does the FTSE100 have to fall to plunge insurers into crisis? "If the market goes down to around 3,500 and stays there for some time there is no doubt things would get tricky," we are told. The best advice we can get, from analysts wary of giving opinions in todays conditions. Is that the fall has another three months to go, and a further 20%.

Research by Fox-Pitt Kelton, the securities house, reveals that if the FTSE100 fell to 3,500 the free asset of major companies such as Aviva, Prudential and Royal & Sun Alliance, would be negative. Even at 4,000, the free assets of Aviva and the life businesses of Abbey National would be wiped out.

That raises the prospect that life insurers may be forced to raise new capital to bolster their financial position. The capital required could be massive. A fall in the FTSE100 to 3,500 would force Aviva to raise £4.lbn in new capital, equivalent to around 42 per cent of its current market capitalisation, to restore its free asset ratio to a reasonable level of 5 per cent.

Prudential would be forced to raise around £3'6bn and RSA £l-2bn, or 40 per cent of its existing market value, to bolster their funds. Even with the FTSE100 at 4,000, the life insurer's appetite for new capital is huge, with **Aviva** needing to raise £2.7bn and **Prudential** £l-9bn.

For now, life insurers have survived a brutal dive in stock markets. Whether the industry survives in its current form is now the key question, especially if the market collapses to the calamitous 3,500

In this climate, one of the companies most in danger is **Royal Sun Alliance**, who have been forced to move out of the life and pensions business altogether, and must now restrict themselves to writing only general business. If the stock market doesn't improve, their funds won't be sufficient. Already many of the companies are charging 20% withdrawal

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penalties, to prevent the “run on the bank” syndrome that could bring them down. **Equitable** set the example, and it is highly unlikely that they will be the last.

Pension Funds are Becoming a Big Problem Everywhere.

IBM Lehman Brothers and Tyco are among the US blue chips whose earnings could suffer because of heroic assumptions about future returns from their pension schemes, new research has suggested.

A study by HSBC, the banking group, highlighted 18 leading US companies with higher than average expectations about pension scheme returns amid growing market concern about the impact of American pension accounting on the quality of earnings.

All 18 companies, which include Bank of America and General Motors, assumed that they would earn double-digit returns from their pension schemes in 2001, a year when global stock markets tumbled.

Many fund managers m the UK regard an expected return of even 6 to 7 per cent as optimistic in present market conditions, while a return of 5 per cent is not seen of as unduly pessimistic. The FTSE 100 dropped 11 per cent in 2001 while in America, the Standard &. Poors 500 index lost nearly 15 per cent.

The complex way in which corporate America accounts for pension schemes means that companies with particularly high expectations about fund returns may have had earnings artificially bolstered by "income" from their investments last year. This means that correcting the situation will mean lower earnings, which will depress the share prices, which is what caused the problem in the first place.

Those companies with high pension fund expectations are also at risk from a significant downgrade to these assumptions in the coming months, a development that could have a significant knock-on impact on earnings

Patrick Schowitz, of HSBC, said "These [companies] are most vulnerable to a downwards adjustment to their expectations and also most likely to show a hit to earnings from pension costs "

According to calculations by HSBC based on company accounts, Lehman Brothers assumed that its pension fund would return 10.81 per cent last year, while IBM, General Motors and Tyco all assumed an annual return of 10 per cent This compared with an average of 9 3 per cent for the 250 leading US companies with defined benefit pension schemes for their employees.

IBM has since reduced its forecast for the annual return to 9 5 per cent.

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The HSBC study also identifies eight leading US companies that increased their expectations about future fund returns during 2001 despite the market turmoil Among these was Tyco, the industrial conglomerate whose former chief executive is under investigation by the Securities and Exchange Commission. So don't expect the problem to ease for a while. Inflated profits have been so endemic that it will take a while to sort it all out.

CLAIMS FRAUD

A jury convicted the top official in Cicero and six others Friday of plotting to steal $12 million from the corruption-ridden community through a bogus insurance scheme.

Town President Betty Loren-Maltese was convicted along with Michael Spano Sr., the man prosecutors say is the boss of organized crime in Cicero, just west of Chicago.

Each defendant was convicted of racketeering conspiracy except Bonnie LaGiglio, who was convicted of tax fraud. Former town treasurer Joseph DeChicio was acquitted of all counts.

The verdicts came after 12 days of deliberations. The maximum sentence for racketeering is 20 years in prison, but most of the defendants were also convicted of mail fraud and tax fraud, counts that carry five-year sentences. The defendants remained calm as the verdicts were returned. A glum Loren-Maltese declined to comment as she left the court. "It's a big shock and she's reeling from it," defense attorney Terence P. Gillespie told reporters. He said she would "continue to fight, she hasn't given up. We intend to stay with this and fight as hard as we can." Still to be settled is how much money the defendants will have to forfeit. That phase of the trial begins Monday.

U.S. District Judge John F. Grady warned the jurors not to discuss the case with anyone because they still must decide who forfeits how much. At the centre of the scheme was Specialty Risk Consultants insurance, a firm prosecutors said was founded in 1992 by John LaGiglio, Bonnie's husband and a defendant. Prosecutors said financing for the insurance company came from Spano, who had been guaranteed that the company would be able to take town business away from Travelers, a well-known company that sells insurance nation-wide. According to witnesses, the guarantee came from the husband of Betty Loren-Maltese, Frank "Baldy" Maltese, the late Cicero town assessor who allegedly engineered the town board's choice of his wife as town president in 1993. She has since been elected twice to the job. Once Specialty Risk became Cicero's medical insurer, the town paid the company $50,000 a week to cover insurance costs.

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The amount grew to $128,000 a week over the next four years.

But the town fell behind in payments to health-care providers. At one point, it was several months and $750,000 behind. According to prosecutors, one cancer patient was even told her treatments would be stopped unless payment was forthcoming while officials such as Loren-Maltese as well as her mother got their medical bills paid immediately. And while insurance paid 80 percent of the medical costs of ordinary employees, it paid 100 percent of those for Loren-Maltese and her mother. "Betty's mom," one insurance record was marked. Meanwhile, money flowed from Specialty Risk to spinoff firms that in turn funnelled cash into a Wisconsin vacation home for the Spano family, a thoroughbred horse farm in Indiana and a golf course on Miscauno Island in northern Wisconsin, which Spano and Loren-Maltese hoped to convert into a casino.

LLOYDS NEWS

Hardy Underwriting said that its 2001 underwriting year was "looking profitable" and estimated that its World Trade Centre losses had been "slightly reduced".

SVB, another Lloyd's insurer, said that its estimated loss was unchanged at £30 million, but admitted that many syndicates would show losses for the 2000 year of account

Let us start with **Wellington** PLC, who report 2001 in £m as:-

104 190 419 (1.5) 2.2 14%

Their report makes great mention of their desire to be market leader.:-

The market leadership to which we aspire is also evidenced by the proportion of business that we lead which, as shown by the following table, is now in excess of 50% This leadership position enables us to exert a strong influence on the rates and terms at which business is written as well as ensuring that we are directly involved in the setting of policy wordings and the negotiation of any claims

That’s as high as 63% in reinsurance. So they’re responsible for the rates, huh? Their own, merged, syndicate 2020 wrote £231m in 2001;, but it is their participation in sundicates they do not control that is at the heart of their market dominance. To wit:-

Managing agent	Syndicate	1998 account

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		£000
Hiscox Syndicate Ltd	33	2,155
Janson Green Ltd	79	2,699
R F Bailey (underwriting Agencies) Ltd	138	901
Ashley Palmer Ltd	183	856
Jago Managing Agency Ltd	205	3,007
K G M Managing Agencies Ltd	260	694
Syndicate Management Ltd	340	1,700
Janson Green Ltd	386	776
D P Mann Underwriting Agency Ltd	435	541
R J Kiln & Co Ltd	510	3,689
R J Kiln & Co Ltd	557	382
Brockbank Syndicate Management Ltd	588	2,981
Wren Syndicates Management Ltd	800	566
R J Kiln & Co Ltd	807	1,798
Brockbank Syndicate Management Ltd	861	3,946
Ace London Aviation Ltd	960	811
Chaucer Syndicates Ltd	1084	1,610
Venton Underwriting Agencies Ltd	1183	1,427
Cowe Syndicate Management Ltd	1204	-
Murray Lawrence & Partners Ltd	2001	7,478
Total		**38,017**

That is a surprising spread of power. Leaders is what they are well on the way to being. Remember that, when there are rating problems.

So let us move on to **Goshawk,** who similarly give 2001 in £m as :-

167 143 238 (11) 1.7 6.6%

They say they have increased their provisions for bad debt on their reinsurance by£2.3 m, but we can’t track the total. It is a good sign, nonetheless, since the number of liquidation committees on which Trevor sits where the “assets” include non responding debts from years ago, is legion. Goshawk says it provides against bad debts on the basis of S&P ratings. They also refer to a reinsurance dispute with GIO, now in run off, which is over £16m, which could rise to £27m. Even that figure is bearable if they lose.

Then we come to **Hiscox**, one of those supported by Wellington (see above) who have across the bright red cover of their accounts the phrase “This year we’ve got to confess..” which refers to their switch to retail business. Part of the reasonoing behind this was a battering from the Pacific Rim problems in 1998 and 1999. It shows 2001 in £m as:-

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134 413 616 (30) 1.5 22%

Always known for their pithy comments, Hiscox writes *"The property and casualty insurance industry has taken a real battering from weak underwriting on the back of easy investment gains in recent years culminating in the savage September 11 losses We always seem to be hit hardest when the coffers are empty at the bottom of the cycle*

However, the consolidation of the reinsurance industry into five major players is arguably a good thing as it will bring sensible price stability. Cheap reinsurance offered to weak insurers always fuels the stupid price-cutting and lack of discipline in the down cycle. Similarly, the consolidation of the insurance industry, combined with the withdrawal from property and casualty insurance by some large composite competitors, gives us remaining players a great opportunity to get it right. We are now able to pick the right business and charge the right price. If we combine that with better use of technology to reduce costs, the future will be good"

Let us hope it is, but as you will see from the graph in Security committee matters, we have successfully headed off a return to profitability in the last two upturns, and with fresh capital pouring into Bermuda (now the second largest provider of capacity) we are in danger of doing it all over again.

BALANCE SHEET ANALYSIS

A B C D C/B A.D%
Capital Net Written Technical U/W
less Premium Reserves Result
Deficit Claims

PMA Capital, which underwrites through PMA Re and Calibre One Indemnity Co., gives 2001 in $m as:

300 732 2324 (88) 3.2 29%

That's good reserving, at a ferocious cost to the trading ratio. It has $225m outstanding debt, which means that much of its underwriting is being done on borrowed money. Never a good idea. Why do they need to borrow? Reinsurance is why.

Dollar amounts in thousands

	Reinsurance	*Collateral*	*Rating*
The London Reinsurance Group	$ 343,270	$ 343,270	A
United States Fidelity and	143.635	104.154	A+
Underwriters Re	86.549	86.549	NR'21
Houston Casualty	74,566	—	A+
Mountain Ridge Insurance	49.829	49.829	NR13

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PXRE	36.495	13.688	A
Folksamenca Re	31.732	1.243	A-

That's a total of $766,076,000. More than twice the capital. More than a years premium income. And that's only the amounts above 5% of Equity. Is this wise, we ask ourselves? So who are PMA? Perhaps a clue is that the retired chairman is shown as President and CEO of Provident Mutual Life.
We must admit that PMA and Calibre One aren't the best known names in the London Market. One of the reasons being that they write a lot of Workmen's Comp, and much of that in California and Texas. So we looked there. And they do seem to have some troubles. They have announced that they are withdrawing from Excess and Surplus Lines writings, which has been the mainstay for Calibre One, and probably shedding about ten percent of the workforce. Since Early May they have been looking for a purchaser for Calibre One, but without success. It will take a fair sized company to buy them, since they wrote $37m in Calif. alone.

Not unnaturally, A.M Best put them on the watch list. This was prompted by the first quarter figures released with the May announcement that they are pulling out. In the first quarter Calibre lost $43.1m, due to necessary increases in reserves. That's more than they write, so there isn't much point.

Aviabel (Belgium) shows 2001 is € m as

13	12	68	2.7	5.7
	+20%			

Which is outstandingly high reserving, but the there were aircraft in the WTC loss. They estimate that the aviation part of that was $5bn. Premiums are up by 50% from € 8m, whereas reserves are down from €81m. It still looks secure.

Hannover Re, (Germany) reports 2001 in € bn as

83	6.5	19	0.0008	1.8
	0			

To get that near to perfect break even, you have to arrange your accounts. Nothing in the Enron class, just "allocate" the appropriate amount if investment income. Which is what they did. They showed a profit from underwriting of €67m, down from 419m last year. Hannover has been on our watch list since it bought Clarendon, with all the problems inherent.
They won't be too badly affected by the stock market crash, as only €1.6 bn of 10 bn are in equity, most of the rest in fixed income.

In the notes to the accounts, we find:

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7.1 Lawsuits

In connection with the acquisition of Lion Insurance Company, Trenton/USA by Hannover Finance Inc, Wilmington/USA - a subsidiary of Hannover Re - a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a portion of the purchase price at that time, which is held in trust
Apart from the aforementioned litigation, no significant court cases were pending during the year under review or as at the balance sheet date - with the exception of isolated out-of-court proceedings within the scope of ordinary insurance and reinsurance business activities

No mention of the $50m lawsuit against **Marty Hoffman** for recovery of premiums he nicked. And then, when they found out, gave them an Insurance Guarantee for the sum, whilst he looked round for another sucker to generate enough cash flow to repay **Clarendon** with. The guarantor was **Brittania Life and Pensions.** In Belize. That's the company **Sam Love** was going to represent after **International Casualty and Surety** went bust, and he was sentenced for fraud in connection with its setting up. Not surprisingly, Clarendon found the guarantee worthless. But none of that is "material" to the accounts.
Hannover bought Clarendon for its program business, and has since bought another big chunk (AEU 78m of premium) of it from Acceptance Insurance Companies.

China International Re (Hong Kong) reports 2001 in HK$m as:-

780 669 623 73 0.9 9%

As we so often see, if you under reserve, you can produce a profit. Our target for a reinsurance company is 2.5 times net premiums. That would be HK$ 1672. They haven't got that much. Worry. It is 100% owned by a British Virgin Isles company. Carry on worrying.
It has 203m in receivables, but doesn't tell us who from, or how long they've been outstanding.

S A Eagle (South Africa) reports 2001 in Rand bn as:-

0.003 1.9 0.4 (0.03) 0.2 1,000%

That's horrible. They do have retained earnings of R 502m but even that won't put the reserves anywhere near viable. Enough said.

"NO, REALLY"

An occasional column of the unbeleivable.
All contributions gratefully received

An employee with the municipal court in Dallas roamed the hallways outside the courtroom, selling fake insurance cards to drivers ticketed for driving

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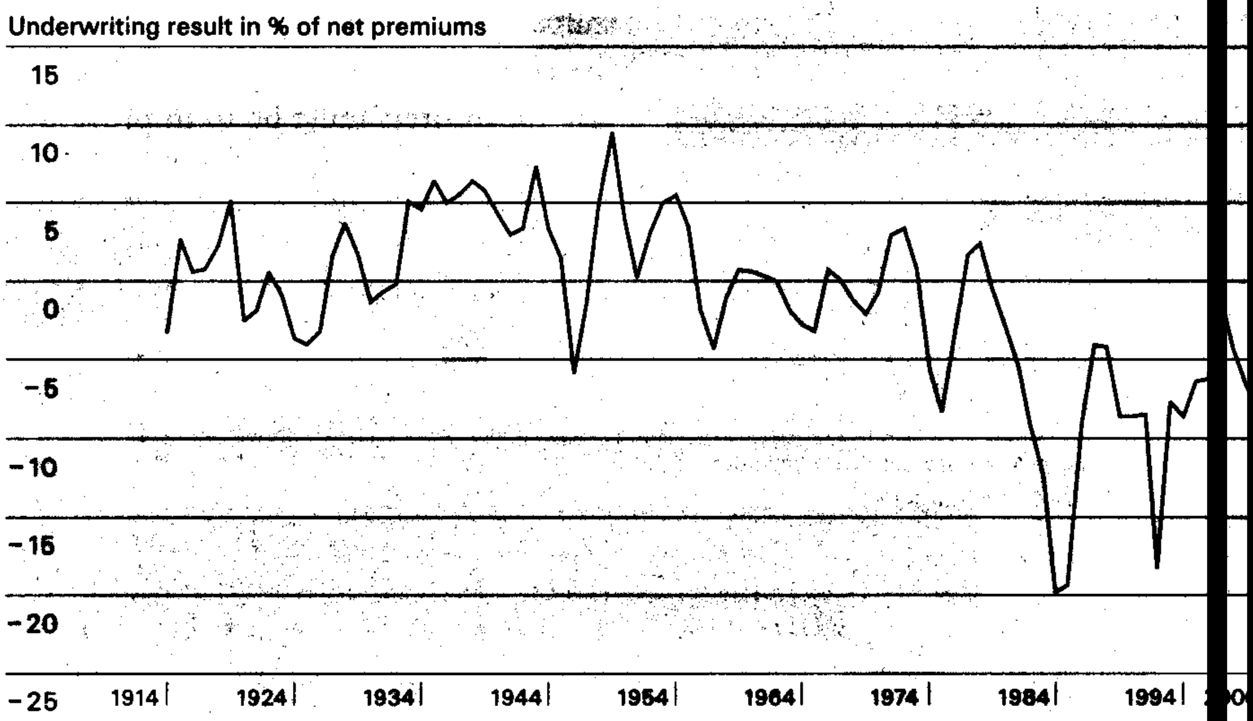
without coverage, prosecutors alleged recently. **Derrick Johnson** approached people while they stood in line at the court, hawking the fake cards for $75-$100 each, officials said. Buyers were then to present the cards to the court clerks, who supposedly would dismiss their citations. Johnson supervised the unit processing insurance and other minor violations. He faces 20 years and up to $1,000 in fines if convicted.

SECURITY COMMITTEE MATTERS

INSURANCE CYCLES? OR INSANITY?

Continued from page 1

each time there is an upturn



Source: A.M. Best

That is lethal. Literally. The same syndrome is likely to happen this time round. WTC forces rates to somewhere near viable, and fresh capital pours into Bermuda. Already there is talk of competitive rates. That graph shows that we are throwing away money, and investment rates aren't going to make it good. A.M.Best has opined that the majority of insurance failures are due, these days, to inadequate reserving.

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This has become the case in the last few years, whereas it did not before. It isn’t possible to generate the proper reserves out of the money we’re charging, and so the margins of survival get thinner each year. Not only are we not likely to make a profit out of investments, but if you went into the stock market, you lost a bunch. Ditto for bonds, if they were in Enron or Worldcom. Which many were.

A new Moody's Investors Service report indicates that life insurers' holdings of some $23 billion worth of securities in companies that have defaulted on their debts or whose creditworthiness is uncertain could lead to losses that might result in credit-ratings downgrades for certain insurers. The report shows that 10 companies with credit problems, such as WorldCom and Enron Corp., have issued over a half a billion dollars in bonds to 13 insurers, including American International Group Inc. ($1.8 billion in exposure), MetLife Inc. ($1.4 billion), Aegon NV ($1.4 billion), and Prudential Financial Inc. ($1.3 billion). The article notes that while these potential losses seem considerable, they represent only a fraction of the total investment portfolio of big insurers such as those mentioned above. However, for the industry as a whole, it represents yet more billions that will not be available to pay claims.

Profits aren’t exactly pouring in all round. New rates will take a while to override the losses in the pipeline. Witness the second quarter losses of two large European financial services firms, Credit Suisse and Allianz. The German insurance giant Allianz posted a net loss of 356 million euros ($349 million), compared with a gain of 661 million euros for the same period last year. The loss is partly attributed to lower investment income from its insurance business. The main reason for the decline was its Dresdner Bank unit, which lost 910 million euros in the second quarter. Credit Suisse posted a net loss of 579 million Swiss francs ($289 million), compared with again of 1.3 billion francs for the same period last year. As a result, other changes are in the wind.

It is only a year since the merger was announced with pride. **Dresdner Bank**, Germany's third-largest bank, at last had a partner after two failed romances. **Allianz**, Europe's biggest insurer, had got not only a sales channel for its life policies, but also a good sized asset manager, Dresdner's DIT. It would be a thoroughly modern Millie, perfect for Germany's evolving retail financial market.

A year after the actual wedding, not all is bliss. Dresdner, never a great beauty, now looks hideous, having lost over $980m in the first six months of 2002, prompting a profit warning from Allianz at the end of July. Apart from the bank, said Allianz in its first-half results on August 14th, business

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is not at all bad, considering these jittery times. Admittedly, collapsing stockmarkets have forced Allianz to write down its portfolio by almost $2 bn but it is winning market share as clients shun smaller insurers for the safety of a big name.

In the past year almost one fifth of the banks revenues have crumbled away. Mergers and acquisitions have dried up, trading revenues fallen by more than half, and fees commissions have dropped by more than one-eighth. That’s very expensive. So are the bad debts it is having to write off.

Dresdner has cut costs hard-by 14% in a year, but not yet by enough. It still has a high exposure in Latin America, including Brazil, which is now a bankrupt state.

In response, Allianz plans to cut Dresdner's costs by a further 10% of the current total, before the end of 2003. Dresdner's loans m the Americas and Asia, where it once had grand ambitions but which it is now quitting, will be put into a separate business unit, along with loans, private equity investments and other Allianz assets unlikely to pay their way. It’s the old “good book, bad book” idea, now legitimised by frequency. Some functions will be managed from Allianz's headquarters in Munich.

A failed merger, then? Not at all, says Allianz. The logic behind the deal was always in the retail market. The problems in Dresdner's corporate division are real enough, and must be put right. But the bank's retail side, Allianz insists, is doing fine. Why, it even made a profit in the first half of the year. Granted, it was only $28m, and these are still early days, but the integration of the bank and the insurer has begun pretty well. Some 860 insurance sellers now work in bank branches, and sales of insurance policies through this channel have quadrupled in the past year. On top of this, Allianz points to another market-realigning deal-made possible by the Dresdner take-over, with Munich Re, another big insurer. The two insurers are neighbours in the same Munich street, and own about one-fifth of each other's shares. When Allianz bought Dresdner Bank (of which it already owned more than one-fifth) it handed 13.6% of HVB to Munich Re in exchange for 40% of Allianz Lebensversicherung, a life insurer of which Allianz already owned just over half. Since then, HVB'S Shares have fallen by two-thirds. Allianz Lebensversicherung's new business rose 29% in the first half, compared with a market average of 13%. Surprising, really.

BRIT & BENFIELD CHANGES

BRIT Insurance Holdings, has given warning that it was likely to record a loss of £115 million for 20.01.

The estimated loss, which is £15 million worse than originally expected, comes after a review of the group's underwriting position. Neil Eckert, the chief executive, described 2001 as "the year from hell".

Mr Eckert said the group was increasing its estimated loss from the September 11 terror attacks by £7 million to £87.5 million. The results would also be affected by other catastrophes, including Allison, the tropical storm, and the Petrobas oil rig disaster.

These are losses from underwriting Lloyds business. Strangely enough, non Lloyds underwriting improved slightly. Mr Eckert said that its contribution to group losses stood at £10 million, which was several million pounds better than had been feared.

Last year the company raised £115 million through the placing of new shares and convertible loan stock to enable it to write £500 million of premiums this year.

The spiral which went Benfield, Fortress and Frankona has gone. Mainly because Fortress went bust, with the Japanese principals claiming they had been defrauded over a long period. Recently, headlines screamed that Marsh, overtaken in the leapfrog by Aon (having its own problems at the moment) were prepared to pay $1bn for Benfield Blanch (currently 9th largest in the world). This would have regained them the pre-eminent position. Not any more. Something went wrong in the due diligence.

The more obvious reasons would be the debt position. The shareholders of Greig Fester haven't had their second tranche of the purchase price. Barclays is still owed £300m, borrowed to purchase Blanch. Equity has been stretched to the limit to expand underwriting, and the beneficial results are still to come. They will, but will it be soon enough?

CNA. ALIVE OR DEAD?

CNA Re in London has gone into run off. For details see our insolvency newsletter. Bests therefore downgraded them from A to A-, saying they were under review. Why, when it has gone into runoff. Surely, when we have had them on the worry list for over a year, even Bests could work out that this is an endgame. Joke is, in the US, the newly formed CNA Insurance Companies (without the encumbrance of all the old liabilities), gets an A rating. You really have to do it yourself. The rating agencies will only downgrade you after you've gone best. Remember Reliance? After years of us warning, and keeping it off our clients approved lists, Rating Agencies downgraded it to a B at almost the same time it finally went bust. You need to know in advance. Which is why we have received a partial response to

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our offer of our 40 odd company worry list, but not from everybody. Don’t you care?

Some of the Bermuda companies from the mid 90’s wave of fresh capitalisations are beginning to feel the heat. ACE's earnings fell 60% in the fourth quarter of last year. The company reported earnings of $46.3m(£32.2m} for the last three months of the year, down from $113.8m(£79.4m) in the same period the previous year. For 2001 as a whole, ACE made a net loss of $146.4m (£102m}, com- pared to a net profit of $S43m (£381m} the year before. The loss is equivalent to 74 cents a share for the Bermuda-based insurer and reinsurer.

Net premiums written for the fourth quarter rose 83% globally to $1.9bn(£1.3bn}, up from $lbn (£700m} in 2000. Net premiums written for the full year 2001 rose by 30% to $6.4bn(£4.49bn} compared to $4.9bn(£3.4bn) in 2000. ACE Europe and ACE Global Markets president and chief executive Gary Schmalzriedt said the fall in earnings was down to large losses and previously soft market conditions.

He said: "The pricing was inferior or was not adequate, and you have to couple that with a rash of large losses in September and October, which we thought was unusual." (*Well lets hope the WTC doesn’t become usual)*

The company confirmed an $80m (£S6.2m) rise in losses from European property cover and took a $50m (£35m) charge to its balance sheet to boost reserves.

Schmalzriedt said: "We thought it was prudent on the casualty side, which includes financial lines to some extent, to shore up our reserves on a global basis."

The company's combined ratio rose to 111.6%.

But Schmalzriedt said the outlook was "extremely positive".

He said rates for insuring standard property risks had increased about 40% and commercial casualty had increased about 30%.

He said: "In large global business, particularly property, you have to speak in terms of multiples and that's true of energy as well."

He was "very bullish" about the prospects for ACE's Lloyd's operation. Others aren’t so sure. About Lloyd’s, that is.

One element of relief is that Ace is one of the few to have settled with Silverstein over the WTC loss. Figures are not available, but the argument over one or two losses didn’t arise, since the Ace policy wasn’t the messy, incomplete wording that Swiss Re are fighting over.

Bermuda is maturing as the second largest provider of capacity in the market, and with it comes a necessary weeding out. You will have read our coverage of the collapse of **Mutual Risk Management**.

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By far the biggest shareholder in Mutual Risk Management was XL Capital, following an XL-led $112 million financing deal that saved the troubled firm from having its ratings lowered in 2001. The major shareholders were:-

Robert Mulderig (ceo)
3.25%
John Kessock (president)
2.07
XL held
18.5%
Reich & Tang
10.3%
First Union Merch bank
10%
Neuberger Berman
8.65%
Franklin Recources
6.2%
High Ridge Capital
5.86%

ARIG has posted net losses of $57.7m (£36m} for the nine months to September 2001, compared to $49.9m {£35m} in revised net losses during the same period in 2000. The company said the WTC attacks , "severely upset" the performance of its wholly owned subsidiary ARIG Reinsurance. ARIG Re is set to lose an additional $28.2m {£20m} "from WTC related claims, as well as another $4m (£2.8m} in investments by year-end. This isn't far out of line for the market experience, and we are heartened that ARIG have absorbed their reinsurance subsidiary into the parent, giving it access to all their reserves, rather than hived it off preparatory to dumping it, as with some we have, and continue to, mention.

CONSECO FALLS.

On August 9 **Conseco**, the insurer and financial services company based in Carmel, Indiana, acknowledged that it had failed to find solutions to its financial problems, and it now seems inevitable that the company will seek bankruptcy protection. State regulators are closely watching the company's finances. Gary C. Wendt, the former General Electric executive who was picked to lead the troubled company two years ago, said that Conseco had hired lawyers and investment bankers to work on reducing its debts. The company said that it would not make the interest payments on approximately half of its $2.6 billion in bonds in the next month. That in itself gives the lenders an excuse to foreclose.

Among the efforts to keep it afloat, business is being shed, to bring in much needed cash. The downside to this is that you sell the good to support the bad (well you can't do it the other way round, can you? As a result, unless you're careful, you get landed with the rump of bad, unsaleable business, and still not enough money to pay off the tail, or go back into the fray. That makes you run off fodder.

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Conseco has closed a reinsurance transaction with **Protective Life Insurance Co**, under which Conseco Variable Insurance Co is ceding 100% of its traditional and interest-sensitive life insurance business. The ceding commission was $49.5m.

EDITORIAL

We have been warning About Zurich Re for over a year, and about Zurich Financial for the last few months. This is not the same one. The Securities and Exchange Commission has warned the public against dealing with **Zurich Investment Group**, *which is not duly registered with the SEC and does not have juridical personality or authority to engage in investment consultancy, investment taking, lending activities and trading in securities.*

Zurich Investment Group is in no way related to a similarly named insurance firm, which is a legitimate and licensed company under the supervision of the Insurance Commission.
But regrettably, high on our worry list.

You can imagine why, when their shares have fallen from a value of £21 bn on May the 21st 2001, to £5.1 bn when last we looked. That's even worse than most of the shares they invested in. Or most of them. No way of telling if they invested in Telewest, but in the same period, that valuation fell from £3.25bn to £55 mn.

REFERRALS

One of the most useful sources of information we have found is Offshore Business News and Research, run by David Marchant. Visit their website at www.offshorebusiness.com.
Unlike us, they give pictures as well. Well worth the visit. Try the **Hall of Shame:-**

This page is devoted to those people in offshore finance whose behavior has contributed to multi-million dollar losses suffered by investors from around the world.

Marc M. Harris
Founder and CEO of The Harris Organization financial services group of Panama, which operates banks, insurance companies and a trust company and offers stock broking, in-house mutual funds and other money management services - all without a single license! In March, 1998, OffshoreAlert published an article accusing The Harris Organization of being insolvent, stealing clients' funds, operating a Ponzi scheme and money laundering. The Harris Organization sued for libel at Federal Court in Miami and <u>lost</u> after a bench trial in July, 1999, then appealed and <u>lost</u> that too. Harris did not testify at the trial, with his group's attorney, Ohio-based AC Strip, telling the court

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that two Harris officers had been served with SEC subpoenas during the trial and that Harris was ‘‘concerned’’ about what might happen to him should he travel to the US. Harris not only refuses to honor redemption requests made by his clients but he also generally refuses to take their irate telephone calls or see them when they turn up in Panama to demand the return of their money. Harris' specialty is to fly easily-impressed Americans to Panama, have them whisked through customs and transported in a chauffeur-driven Jaguar to Downtown Panama City, where they are wined and dined and parted from their money. He doesn't tell them that his CPA license was suspended in Florida in 1990 for incompetence and negligence after he audited a Florida-based mutual fund without disclosing in the notes to the financial statements that he also owned and ran it, according to a complaint. Additionally, the sum of the individual assets did not equal the number given for total assets, there was insufficient information on investments in operating affiliates and there was an absence of information on the aggregate cost and market value of marketable securities held by the company. Harris was also involved in illegally-run Montserrat banks that were closed down by British police in 1989-90, buying offshore 'shell' banks from notorious bank charter broker Jerome Schneider. According to those who know him, Harris has an insufferable ego that his business and professional failures have done nothing to diminish. This is, perhaps, best illustrated by Harris once handing out signed copies of his self-published book 'The Intellectual Spirit of Marc M. Harris' to strippers who were performing at a Panama strip club, according to a former employee. You can download several documents about Harris from our 'Harris Organization Documents Page'.

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July 2002

Insurance Security Services

Insolvency Newsletter

Private & Confidential

ARREST WARRANTS ON HOMEFIELD

We have been writing about "Cashback cheques" and their variants for some ten years, and the series of companies which were organised in succession to write the business.

Finally an arrest warrant has been issued in Nevada for one of the directors of a number of these, 46-year-old Simon John Samuels. We first met him when, in Bermuda, he ran Aneco Insurance, along with David Thirkill. Thirkill had previously been with British National Ins (ceased) and Castle Re (Gib) (ceased). Aneco ended up being sold to Mark Hardy, who switched it's name with Forum Re, which he already owned, and integrated it into the Forum Group, all of which was liquidated, although he is now trying to revive it. Thirkill moved on to operate with Marty Hoffman, who has had more than his share of these pages. The kinks are complex, since another part of Hardy's insurance empire was Amberco Insurance brokers. This was run by John McGarrity, who went on to write a book of business for Tangent using a Bahamian base, and when some of this was proved to be illegal securities offerings, credit enhanced by his insurance, went walkabout.

Continued on page 9

DON'T TRUST TESTU

We have written quite a lot over the years about **Dominiqe Testu** and **INX Re**. Ever since he got fired from the Canadian Branch of a French insurer, he has managed to survive a colourful and exciting career, and never yet gone to jail, although quite a number of those around him have. These include the Insurance Commissioner of Wyoming, **Gordon T. Taylor, Jr** and the offences were over companies of which Testu was a director, in conjunction with **Ferrel Travis Riley**, who has also been jailed, as has **Cheryl Coon**, another director. However, this was after he had persuaded a Puerto Rican entrepreneur and owner of one of PR's largest insurance companies,

Continued on page 3

HIH WAS BUST IN 1999

It appears that **HIH** may have been insolvent in 1999 according to a Jul 17, 2002 Herald Sun story.

The Royal Commission into HIH Insurance has heard the insurer may have been insolvent two years before its official demise. On 17 July 2002, Senior Counsel Wayne Martin said two of HIH's three licensed insurance businesses appeared to be insolvent as early as 30th June 1999. *Continued on page 9*

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